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Shareholders Vote in Favor Of Unocal Acquisition

$18 Billion Chevron Deal Comes After Takeover Battle With Chinese Firm

By Justin Blum
Washington Post Staff Writer
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Shareholders of Unocal Corp. voted yesterday to accept Chevron Corp.'s offer to buy the oil company following a high-profile bidding war involving a company controlled by the Chinese government.

The deal, worth about $18 billion, gives an immediate boost to Chevron's worldwide oil and natural gas reserves and production. The acquisition -- finalized on a day when oil prices reached a modern record -- followed months of negotiations and controversial efforts by Chevron and the Chinese oil company Cnooc Ltd. to purchase Unocal.

Following a meeting of its shareholders in Los Angeles, Unocal announced that holders of 77.2 percent of the company's stock voted to approve the deal.

In a written statement, Chevron chief executive David J. O'Reilly called the acquisition "an important milestone" for the country's second-largest oil

The Firms

Chevron

Based: San Ramon, Calif.

Employees before acquisition: About 47,000

Market capitalization as of yesterday: $130.2 billion

2004 combined oil and natural gas proved reserves: 11.25 billion barrels of oil equivalent

2004 profit: $13.33 billion

Unocal

company, following Exxon Mobil Corp. "Unocal is an excellent strategic fit with Chevron's assets and corporate culture," O'Reilly said.

Based: El Segundo, Calif.

Employees: About 6,400

Market capitalization as of yesterday: $17.96 billion

2004 combined oil and natural gas proved reserves: 1.75 billion barrels of oil equivalent

2004 profit: $1.21 billion

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The acquisition comes at a time of record oil prices and inflated values for energy companies, which are profiting from surging demand and tight supply. Analysts said sustained high prices would justify the acquisition while a plunge in prices would hurt the combined company's results.

On the New York Mercantile Exchange, oil for September delivery closed yesterday at $64.90, up $1.83 from the day before. While that price set a record in dollar terms, it remains well below the inflation-adjusted peak in 1981. The price increase came after U.S. government reports showed declining domestic stocks of gasoline and during continued concern about the possibility of terrorism in Saudi Arabia, the world's largest oil-producing country.

Unocal's board in April recommended voting in favor of Chevron's original offer. But Cnooc, eager to acquire more oil and natural gas reserves, made a play for the company in late June, offering a deal with more money. Chevron countered by enhancing its offer and fanning anti-China opinion on Capitol Hill. Earlier this month, Cnooc withdrew its bid, saying it could not overcome resistance from politicians in Washington who warned that Cnooc's acquisition of Unocal would threaten U.S. national security and violate trade rules.

The acquisition provides needed production and reserves for San Ramon, Calif.-based Chevron. Chevron's oil and natural gas production have fallen steadily since 1998, while proven reserves have fallen since 2003.

With the acquisition, Chevron's proven oil and natural gas reserves jump by about 15 percent, to the equivalent of about 13 billion barrels of oil. Daily production would go from the 2.4 million barrels a day forecast for 2005 to about 2.8 million barrels a day, analysts said.

The acquisition is the largest for Chevron since it took over Texaco Inc. in 2001 -- a combination that analysts said has helped boost Chevron's profit. With Unocal, Chevron is gaining assets that will dovetail with its own -- including in Thailand, Indonesia, the Gulf of Mexico and the Caspian Sea region -- providing management and production efficiencies, analysts said.

"This was a nice, synergistic fit into the company," said L. Bruce Lanni, a San Francisco-based analyst with A.G. Edwards & Sons Inc. "The deal worked out extremely well for Chevron in the end. . . . They acquired a fabulous asset base at a reasonable price."

Garfield L. Miller III, president of Aegis Energy Advisors Corp., a New York-based energy investment bank, said that by growing larger, Chevron gains important advantages. Larger companies are better positioned in negotiations with foreign governments that control access to oil and often achieve better credit ratings.

"You wind up getting rewarded for being bigger," Miller said.

Under the terms of the merger, Unocal shareholders could decide whether to receive $69 in cash per share, 1.03 shares of Chevron stock or a combination of the two. Chevron has said that it will hire many of Unocal's 6,400 employees. Unocal's chairman and chief executive, Charles R. Williamson, will work for Chevron in a "transition role" until later this year, Chevron said.